



DEPARTMENT OF
FINANCE

ARNOLD SCHWARZENEGGER, GOVERNOR

915 L STREET ■ SACRAMENTO CA ■ 95814-3706 ■ WWW.DOF.CA.GOV

December 19, 2008

Mr. Craig Buehler, Chief
California Department of Justice
Criminal Intelligence Bureau
1102 Q Street, 6th Floor
Sacramento, CA 95811

Dear Mr. Buehler:

**Final Audit Report—California Department of Justice, CALGANG System Grant Award
CG06109504**

Enclosed is the final audit report on the California Department of Justice's (DOJ) CALGANG System grant award CG06109504 for the period July 1, 2006 through June 30, 2007. The audit was performed under an interagency agreement between DOJ and the Department of Finance, Office of State Audits and Evaluations and included a review of grant receipts and expenditures, internal control, and compliance with grant contract provisions.

The enclosed report is for your information and use. The DOJ's response to the report and our evaluation of the response are incorporated into this final report. In accordance with Finance's policy of increased transparency, this report will be placed on the Finance website.

We appreciate the assistance and cooperation of DOJ staff during our audit. If you have any questions regarding this report, please contact Mary Kelly, Manager, at (916) 322-2985.

Sincerely,

Original signed by Janet I. Rosman for:

David Botelho, CPA
Chief, Office of State Audits and Evaluations

Enclosure

cc: Mr. James Humes, Chief Deputy Attorney General, Office of the Attorney General
Mr. Andy Kraus, Director, Office of Program Review and Audits, California
Department of Justice
Mr. Richard Lopes, Deputy Director, Division of Law Enforcement, California
Department of Justice
Ms. Sue Johnsrud, Director, Division of Administrative Support, California
Department of Justice
Ms. Karen Sherwood, Special Agent-In-Charge, Bureau of Investigation and Intelligence,
California Department of Justice
Ms. Deborah Merrill, Accounting Office, California Department of Justice
Mr. Kirby Everhart, Chief, Crime and Gangs Branch, Governor's Office of
Emergency Services

A GRANT AUDIT

California Department of Justice
CALGANG System
Grant Award CG06109504
For the Period July 1, 2006
through June 30, 2007

Prepared By:
Office of State Audits and Evaluations
Department of Finance

MEMBERS OF THE AUDIT TEAM

Mary Kelly, CPA
Manager

Dennis Mehl
Supervisor

Staff

Dennis Williams

Final reports are available on our website at <http://www.dof.ca.gov>

You can contact our office at:

Department of Finance
Office of State Audits and Evaluations
300 Capitol Mall, Suite 801
Sacramento, CA 95814
(916) 322-2985

TABLE OF CONTENTS

Preface.....	iv
Independent Auditor's Report	1
Statement of Budgeted, Claimed, and Allowed Expenditures	3
Notes to the Statement of Budgeted, Claimed, and Allowed Expenditures	4
Findings and Recommendations	6
Auditee's Response	7
Evaluation of Response	10

PREFACE

The Department of Finance, Office of State Audits and Evaluations performed this grant audit under an interagency agreement with the California Department of Justice (DOJ). The purpose of this audit was to determine whether DOJ complied with the Governor's Office of Emergency Services' (OES) CALGANG System grant award. The audit objectives were as follows:

- To determine whether DOJ appropriately used state grant funds as intended and specified in the grant award.
- To determine whether DOJ's internal control allows for the accurate and timely development of accounting data needed to produce the *Statement of Budgeted, Claimed, and Allowed Expenditures*.
- To verify DOJ's compliance with applicable laws, regulations, and contract requirements.
- To provide, as necessary, recommendations regarding the eligibility of funding and improving internal control.

This report is intended for the information and use of DOJ and OES management and is not intended to be and should not be used by anyone other than the specified parties. However, this report is a matter of public record and its distribution is not limited.

INDEPENDENT AUDITOR'S REPORT

Mr. Craig Buehler, Chief
California Department of Justice
Criminal Intelligence Bureau
1102 Q Street, 6th Floor
Sacramento, CA 95811

We have audited the accompanying *Statement of Budgeted, Claimed, and Allowed Expenditures* (Statement) of the California Department of Justice (DOJ), in accordance with the Governor's Office of Emergency Services' (OES) grant award CG06109504 for the period July 1, 2006 through June 30, 2007. The Statement was prepared from DOJ's records and is the responsibility of DOJ management. Our responsibility is to express an opinion on the Statement based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to provide reasonable assurance as to whether the Statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Statement. An audit also includes assessing the accounting principles used and significant estimates made by management. We believe that our audit provides a reasonable basis for our opinion.

In connection with our audit, there are certain disclosures required by *Government Auditing Standards*. The Department of Finance (Finance) is not independent of the audited entity, as both are part of the State of California's Executive Branch. As required by various statutes within the California Government Code, Finance performs certain management and accounting functions. These activities impair independence. However, sufficient safeguards exist for readers of this report to rely on the information contained herein.

The accompanying Statement was prepared, as described in Note 1, for the purpose of determining DOJ's fiscal compliance with the requirements of grant award CG06109504. The Statement is not intended to be a presentation of DOJ's total revenue and expenditures.

In our opinion, the Statement referred to above presents fairly, in all material respects, the budgeted, claimed, and allowed expenditures for grant award CG06109504 for the period July 1, 2006 through June 30, 2007, in conformity with accounting principles of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered DOJ's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the statement, but not for the purpose of expressing our opinion on the effectiveness of DOJ's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of DOJ's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects DOJ's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of DOJ's financial statements that is more than inconsequential will not be prevented or detected by DOJ's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether DOJ's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, which are as described as Finding 1 in the *Findings and Recommendations* section of this report.

This report is intended solely for the information and use of DOJ management and is not intended to be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Original signed by:

Janet I. Rosman, CPA
Assistant Chief, Office of State Audits and Evaluations
(916) 322-2985

December 19, 2008

STATEMENT OF BUDGETED, CLAIMED, AND ALLOWED EXPENDITURES

California Department of Justice
CALGANG System
Grant Award CG06109504
For the Period July 1, 2006 through June 30, 2007

	<u>Budgeted</u>	<u>Claimed</u>	<u>Allowed*</u>	<u>Questioned</u>
Grant Funds				
Operating Expense	\$ 275,976	\$ 265,560	\$ 265,560	\$ 0
Equipment	<u>24,024</u>	<u>8,183</u>	<u>8,183</u>	<u>0</u>
Total Grant Funds	<u>\$ 300,000</u>	<u>\$ 273,743</u>	<u>\$ 273,743</u>	<u>\$ 0</u>

*Allowed amounts are based on the results of audit tests.

The accompanying notes are an integral part of this statement.

NOTES TO THE STATEMENT OF BUDGETED, CLAIMED, AND ALLOWED EXPENDITURES

**California Department of Justice
CALGANG System
Grant Award CG06109504
For the period July 1, 2006 through June 30, 2007**

NOTE 1 Summary of Significant Accounting Policies

A. Definition of the Reporting Entity

The constitutional office of the Attorney General, as chief law officer of the state, has the responsibility to see that the laws of California are uniformly and adequately enforced. This responsibility is fulfilled through the diverse programs of the California Department of Justice (DOJ).

The DOJ is responsible for providing skillful and efficient legal services on behalf of the people of California. The Attorney General represents the people in all matters before the Appellate and Supreme Courts of California and the United States; serves as legal counsel to state officers, boards, commissions, and departments; represents the people in actions to protect the environment and to enforce consumer, antitrust, and civil rights laws; and assists district attorneys in the administration of justice.

The DOJ also coordinates efforts to address the statewide narcotic enforcement problem; assists local law enforcement in the investigation and analysis of crimes; provides person and property identification and information services to criminal justice agencies; supports the telecommunication and data processing needs of the California criminal justice community; and pursues projects designed to protect the people of California from fraudulent, unfair, and illegal acts.

B. Program Information

The CALGANG automated gang tracking system was placed into operation in December 1997 in response to the Attorney General's public announcements to make it a priority to assist local agencies in combating gangs. The DOJ, California Bureau of Investigation (CBI), embarked upon a multi-year, OES-funded effort to design, develop, and deploy a centralized lineage of existing local agency gang databases. This database system provides intelligence information to assist local agencies, and state and federal law enforcement agencies, in solving gang related crimes, and provides tactical and strategic information to

gang unit operations and police administrators throughout California. Presently, there are 13 regional local law enforcement agency gang information centers established in California. These node centers serve as central hub sites for over 500 local, federal, and state agencies.

The OES awarded DOJ a \$300,000 grant award to provide funding to establish a database system to make gangs and gang member information available to local law enforcement agencies. The term of the grant is July 1, 2006 to June 30, 2007.

C. Basis of Presentation

We prepared the *Statement of Budgeted, Claimed, and Allowed Expenditures* (Statement) from DOJ's accounts and financial transactions. The Statement summarizes DOJ's expenditures pertaining to the grant award. The Statement is not intended to represent all of DOJ's expenditures, and summarizes DOJ's transactions pertaining to grant award CG06109504 only.

D. Basis of Accounting

The DOJ's accounts are maintained on a modified accrual basis and in accordance with the principles of fund accounting. Under the modified accrual basis, revenue are recorded as they become measurable and available, and expenditures are recorded at the time the liabilities are incurred.

FINDINGS AND RECOMMENDATIONS

Finding 1	Inadequate Monitoring and Oversight of Payment of Invoices
Condition:	<p>The Department of Justice (DOJ) paid consulting invoices that were inaccurately calculated and inadequately reviewed. The invoices paid contained the following inaccuracies:</p> <ul style="list-style-type: none">• Invoices were paid without proper documentation.• Invoices paid were calculated using incorrect hourly rates.• DOJ paid twice for the same work performed. The contractor sent DOJ a corrected invoice for services that were paid on a prior invoice and it was also paid.
Criteria:	<p>The DOJ accounting procedures state “Each invoice must be thoroughly audited for compliance under the terms of the contract” and “Upon receipt of an invoice, you should verify the following: Payment provisions to ensure that the invoice matches the rates agreed to within the contract.”</p>
Recommendation:	<p>The DOJ follow and monitor accounting procedures to ensure invoices are reviewed properly for payment.</p>

AUDITEE'S RESPONSE



OFFICE OF PROGRAM REVIEW AND AUDITS
P.O. BOX 944255
SACRAMENTO, CA 94244-2550
Public: (916) 322-6541
Direct: (916) 322-9036
Facsimile (916) 322-1335
Email: Andy.Kraus@doj.ca.gov

December 18, 2008

Mr. David Botelho, Chief
Department of Finance
Office of State Audits and Evaluations
300 Capitol Mall, Suite 801
Sacramento, CA 95814

RE: Fiscal Year 2006/07 CalGang Grant Program Audit Finding

Dear Mr. Botelho:

This letter is in response to the Department of Finance's (DOF) audit finding of the Department of Justice's (DOJ) Fiscal Year 2006/07 CalGang grant program audit performed by your office. Thank you for the opportunity to include this response in the final report. In response to the finding and recommendation, I submit the following comments:

- Invoices were paid without proper documentation.

All supporting documentation was provided to the DOF auditors and no costs were questioned due to a lack of proper documentation. The amount invoiced to the Office of Emergency Services (OES) was proper and was for grant-related activities. The DOJ's policy is for program staff to ensure that all documentation is attached to invoices at the time they are submitted for payment to the DOJ Accounting Office. The DOJ Accounting Office reviews the invoices and supporting documentation prior to making payment. If the DOJ Accounting Office receives an invoice without the proper supporting documents, the invoice is returned to the submitting program and they are responsible for gathering the proper documentation and resubmitting for payment.

- Invoices paid were calculated using incorrect hourly rates.

Although the initial invoice submitted by the contractor contained incorrect hourly rates and was paid by the DOJ, once the error was discovered it was adjusted, and a credit was received and taken by the DOJ. The OES was billed the correct amount for CalGang grant-related services.

- The DOJ Accounting office has revised their payment procedures for purchase order (PO) invoices to include that any invoice that do not agree with the rates approved in the PO is returned to the program staff to dispute the rates with the contractor. We are confident that this will help mitigate the risk of invoice payments being made outside the contract parameters.

- DOJ paid twice for the same work performed. The contractor sent the DOJ a corrected invoice for services that were paid on a prior invoice and it was also paid.

Initially a duplicate payment was made to the contractor; however, once the duplicate payment was discovered it was adjusted, and a credit was received and taken by the DOJ. The OES was billed only for the correct invoice amount related to the CalGang grant.

In addition, in our ongoing efforts to improve our processes, we have or will implement three separate initiatives. First, the DOJ Contracts Unit has sent Chapter 9, Contract Management, of the Department of General Services (DGS) State Contracting Manual to the administrative managers of each division to reiterate their responsibility with regard to contract management. This chapter is also included in the distribution of each contract. Second, those individuals designated as contract managers will be asked to attend the DGS California Procurement and Contracting Academy's service contracting workshop, where the topic of contract management is covered. Third, internal DOJ contract training will emphasize steps necessary for proper invoice approval. We are confident that each of these initiatives will help ensure improved contract management and approval of invoices.

In conclusion, I would like to again thank you and your staff for the hard work performed on each of the audits performed. If you have any follow up questions, please contact me at (916) 322-9036.

Sincerely,

Original signed by:

ANDREW J. KRAUS III, Director
Office of Program Review & Audits

For EDMUND G. BROWN JR.
Attorney General

cc: Jim Humes, Chief Deputy Attorney General
Craig Buchler, Chief, BII, DOJ
Sue Johnsrud, Director, DAS, DOJ
Dave Harper, Assistant Director, DAS DOJ
Karen Sherwood, Special Agent-In-Charge, BII, DOJ
William Holtz, Manager, Office of Departmental Services, DOJ
Deborah Merrill, Chief, Accounting, DOJ

EVALUATION OF RESPONSE

The Department of Finance, Office of State Audits and Evaluations, reviewed the Department of Justice's (DOJ) response to the draft report.

In its response, DOJ indicates that it is undertaking efforts to improve its contracting and invoice payment processes. We are confident that by implementing these efforts, as well as by addressing the recommendation included in our report, DOJ's monitoring and oversight activities will be adequate to ensure appropriate grant related expenditures.